



Thursday, December 16, 2021

FHFA Constructs a GSE Stress-Capital buffer

Building on its pending rewrite of GSE-[capital rules](#), FHFA today [proposed](#) capital-planning requirements for Fannie Mae and Freddie Mac akin in many ways to those governing large banks. The rules would thus demand a stress capital buffer (SCB) construct, requiring the GSEs not only to have adequate capital, but also to stress it under FHFA-dictated scenarios to see how well it lasts. The GSEs would not necessarily be barred from capital distributions, but this is a moot point because Fannie and Freddie are currently and indefinitely retaining capital in hope of eventually exiting conservatorship. However, as in the banks' SCB ([see FSM Report CAPITAL225](#)), the GSEs must detail planned capital distributions, anticipated business-model changes, and liquidity considerations under both baseline and stress conditions. We will shortly provide clients with an in-depth assessment of this proposal; comments on it are due sixty days after publication in the *Federal Register*.

Campaign Advances to Oust McWilliams

Ramping up the [FDIC battle](#), Public Citizen today [called](#) on President Biden to oust FDIC Chair McWilliams. Confirming those who have suggested that the fracas is about more than bank M&A, the letter is signed not only by many consumer-advocacy groups, but also by climate-change interest organizations. It argues that Chair McWilliams' actions warrant either at-will or for-cause dismissal because the signatories disagree with Ms. McWilliams' read of FDIC governing law. We will monitor both the White House and Congressional Democrats to assess the extent to which this campaign takes hold.

Democrats Demand BNPL Review, CFPB Obliges

Acting quickly on Senate Democrats' [request](#), the CFPB [today](#) launched an inquiry into buy now, pay later (BNPL) credit, requesting information from five BNPL credit providers on BNPL risks and benefits. Like the senators, the Bureau is concerned about debt accumulation, arguing that the ease of financing multiple purchases across multiple schedules can make tracking payment particularly difficult, leading to unanticipated fees from both their bank and from the BNPL provider. The Bureau also asks about potential regulatory arbitrage, noting the lack of certain disclosures, applicable protections, or dispute resolution protections. BNPL may also apply different late fees and policies. Information on the potential for BNPL providers to harvest and monetize consumer data is also solicited along with company metrics such as transaction volume, loan performance, and user demographics. Responses are due March 1.

FSB Says Global NBFIs are Stable, Shrinking vs. Banks

The FSB [today](#) released its annual NBFI monitoring report, concluding somewhat puzzlingly that balance-sheet NBFI vulnerability measures appeared broadly stable comparing 2020 and 2019 despite the market volatility at the pandemic's outset and massive government intervention. The report looks primarily at annual data, briefly noting that volatility observed in the first two quarters of 2020 is absent from its findings although the FSB did examine this in separate studies ([see Client Report NBF1](#)).

The NBFI sector – i.e., insurers, pension funds, and other financial intermediaries such as investment funds, broker-dealers, and finance companies – globally grew less than the banking sector in 2020, reversing a decade-long trend. NBF1 global share of financial assets declined by 1.4 percentage points, with bank exposures to the sector also decreasing. Bank liabilities to the NBF1 sector were also lower than in prior years. Overall, NBF1s account for 63 percent of U.S. financial assets versus only 22.5 percent for banks.

OCC Begins Climate-Risk Regulatory Build-Out

As [promised](#), the OCC [today](#) issued draft climate risk-management principles that, when finalized, would guide future agency action starting next year. We will shortly provide clients with an in-depth analysis of this proposal, which would apply to national banks with assets over \$100 billion and focus at a high level on applying existing risk-management principles to this high-profile area. The principles also build on Acting Comptroller Hsu's [governance recommendations](#), laying out how banks should begin to measure climate-risk exposures and incorporate related financial risks into the overall risk-management framework. Comments are due February 14.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [MERGER9](#): Released in a highly-controversial fashion (see below) by two Democrats on the FDIC's board, this RFI posits the need for a significant review of mergers involving insured depository institutions (IDIs) due to many changes in the financial industry and, so it says, the lack of substantive competitive analysis over past decades even of the largest transactions.
- [GSE-121521](#): Although there were signs [earlier this year](#) that the QRM risk-retention exemption might get a long-delayed overhaul, the agencies [yesterday](#) ducked any decisions.
- [GSE-120921](#): On Tuesday, [HUD](#) and the [CFPB](#) opened the door to [special-purpose mortgage finance](#). Now, we expect FHFA to use this safe harbor to mandate express GSE equitable-finance programs and for banks to take much of what's left in all their commitments after George Floyd's murder and turn it into mortgage and other community-finance products.
- [CRYPTO23](#): As [anticipated](#), today's HFSC hearing was a marathon session at which industry witnesses defended their business model, Republicans liked it fine, and Democrats worried about a wide array of policy challenges.
- [COVEREDFUNDS3](#): The OCC is "clarifying," but also in many respects rescinding one aspect of controversial 2020 rules expanding the "covered funds" under which banks may make equity investments as provided by the Volcker Rule.
- [GSE-120621](#): As we noted on [Friday](#), Senate Banking Ranking Member Toomey asked SEC Chairman Gary Gensler a trick question about GSE [obligations](#) at the very end of a lengthy letter focused principally on cryptography.
- [GSE-120221](#): Two recent studies add fuel to the fire we first spotted [late last year](#): demands for ARMs that only go down.
- [FEDERALRESERVE65](#): Continuing the partisan and often-acrimonious tone of the Senate Banking hearing ([see Client Report FEDERALRESERVE64](#)), HFSC today heard from Chairman Powell and Secretary Yellen.
- [CRYPTO22](#): Although the OCC joined other agencies issuing a non-committal "roadmap" for future cryptography actions, the agency at the same time and far more decisively stated that crypto activities

are permissible only if they are also safe and sound.

- **FEDERALRESERVE64**: Most of the news at today's Senate Banking hearing revolves around Chairman Powell's concession that inflation may not be transitory and economic growth is now so robust that quantitative tightening might proceed more quickly than planned, pandemic permitting.
- **GSE-113021**: Unsurprisingly, [FHFA today raised](#) the GSEs' conforming loan limit to about \$647,000 and the high-cost limit to nearly \$1 million.
- **GSE-112421**: Because FHFA tends to take its cue from both the Basel Committee on Banking Supervision and its U.S. cousins, we here drill down to look at the housing-finance implications of the proposed global framework we assessed in a [recent in-depth report](#).
- **CLIMATE12**: Following the UN's COP26 climate-risk summit, the Basel Committee has proposed high-level principles guiding risk management and supervision related to both physical and transition climate risk.
- **REFORM210**: [As expected](#), today's hearing with Comptroller-nominee Saule Omarova included an unprecedented amount of fireworks for what is normally a low profile appointment.
- **FAIRLEND10**: The CFPB has followed a study earlier this year finding significant mortgage product and price discrepancies based on race or ethnicity with a request for input (RFI) on the HMDA data on which the study was based.
- **GSE-111721a**: FHFA's [new scoring system](#) for the GSEs and CSS is a startling, if unsurprising, mission rewrite.
- **GSE-111721**: As [noted](#) yesterday, the CFPB has opened its HMDA rules to a raft of changes
- **GSE-111521**: As we [noted on Wednesday](#), the CFPB highlighted Director Chopra's competition focus when it joined other agencies [renewing](#) their mortgage-servicing supervisory and enforcement standards.
- **GSE-111221**: As [Mark Calabria made clear earlier this year](#), reform of the Treasury market has direct, major impact on that for agency debt and MBS.
- **TMARKET2**: In this report, we build on [our initial analysis](#) of Monday's [report](#) from the Inter-Agency Working Group on Treasury Market Surveillance (IAWG).
- **SYSTEMIC92**: Late yesterday, the Federal Reserve [released](#) its most recent financial-stability report. As in its predecessor earlier this year ([see Client Report SYSTEMIC91](#)), this report takes a cautious view, counting on continuing bank resilience to counteract old worries, such as asset-price bubbles, along with containing at least some new fears.
- **CRYPTO21**: As [noted yesterday](#), the President's Working Group on Financial Markets (PWG) was joined by the OCC and FDIC yesterday issuing a report calling for prompt Congressional action to regulate stablecoins and, even in its absence, also for fast action by federal regulators and the FSOC.